FINANCIAL ADVICE: IT SHOULDN'T BE THE SAME FOR EVERYONE

Have you ever received unsolicited financial advice? Your friend tells you Roth IRAs are a home run. Your neighbor assures you term life insurance is the way to go because it's so much cheaper. Your family member questions why you'd ever pay a Certified Public Accountant (CPA) when you can complete your taxes online for a fraction of the cost.

We've likely all had similar conversations at some point in our adult lives. And, while our friends, neighbors and family members usually have our best interests in mind, they aren't necessarily qualified to provide financial advice. Following are several common questions that illustrate how sound financial advice for one person may not be a wise decision for someone else.

Question 1: Should you choose a CPA or online tax service?

Answer: When considering how to file your taxes, you may want to contemplate the complexity of your financial and personal situation. If you're single with no dependents, all your income is recorded through a W-2, and you do not anticipate any immediate changes to your financial situation, such as starting a business or coming into a large sum of money that increases your net worth, you may be best suited to use an online tax program.

However, if your filing situation is more complicated, consider using a CPA. For instance, if you're married, own a home, have dependents, own a business, and/or have a more robust balance sheet, you may benefit from the experience and guidance of a CPA.

In addition to filing your taxes, a CPA can work with your wealth advisor to help ensure your tax strategy is integrated across all stages of your financial life, including education planning, retirement planning, estate planning and more.

Question 2: Should you open a traditional or Roth IRA?

Answer: Keep in mind that any form of retirement savings is beneficial. The first step in understanding which type of retirement savings may be more suited to you is fully understanding aspects of your options.

A traditional retirement account allows you to invest pre-tax dollars. Those dollars grow tax-free until you start taking distributions. Traditional accounts have required minimum distributions (RMDs). An RMD is an annual withdrawal the federal government requires be taken from traditional IRAs and employer-sponsored retirement plans once an investor reaches age 72 (or in some cases, after retirement). You can always withdraw more than the minimum amount from your IRA or plan in any year, but if you withdraw less than the required minimum, you will be subject to a federal penalty.

A Roth IRA allows you to invest after-tax dollars, and those dollars grow tax-free until you start taking distributions, at which point you do not have to pay any taxes on the funds earned. Roth IRAs do not have RMDs. You may be asking yourself, "What's the greatest benefit of each type of retirement plan?" A benefit of a traditional account is that it lowers your taxable income each year the funds are contributed, and once you hit retirement, you'll likely be in a lower tax bracket. Roth IRAs are often an attractive choice for younger investors who have discretionary income to contribute to retirement planning.

Question 3: Should you invest in whole or term life insurance?

Answer: Whole life insurance, in exchange for premium payments, pays out a sum of money to a beneficiary upon the death of the policy holder. This permanent insurance will not expire if you pay the premium, or if there is enough cash value in the policy to self-fund. While annual premiums are relatively high and only a small portion of the premiums go to insurance, most dollars contribute to growing your cash value. Over time, your cash value grows, and you may access it later in life by borrowing against the policy or canceling the policy outright. Over time, the death benefit also increases and is typically tax free to your beneficiary following your death.

Term insurance can be best compared to car insurance. If you don't use it, you lose it. And while it is relatively inexpensive, at the end of your term (e.g., 10, 20 or even 30 years), if you are still living, there is nothing to show for your investment.

While there is no definitive answer on which type of policy is best, it's vital to evaluate your fact pattern and liquidity when deciding on your life insurance. We most often see a combination of both whole and term life insurance. A combination approach can help satisfy needs should a "what if" scenario occur, as well as allow you to save for retirement and provide liquidity upon your death.

Question 4: Should you put as much money as possible into your child's 529 higher education plan?

Answer: Like retirement plans, 529 plans grow tax free and can be a great way to save for your child's education. A 529 can be used for education expenses for any level of education. Because the plan grows tax free, it is most beneficial when used to pursue education later in life. Additionally, investing in a 529 can be a tax benefit in many states.

However, be aware of the risk of overfunding a 529 plan. It may make sense to invest education-focused dollars in a trust or other entity. Although these vehicles may not have the same tax benefits, they provide more flexibility. For instance, what if your child receives a substantial college scholarship or decides not to attend college? Unless you transfer the account to another beneficiary, the funds in the 529 would be subject to a tax.

As with most financial decisions, there is no one right answer when it comes to investing in a 529 plan. When considering this vehicle, you may want to research and obtain advice on other savings options that may allow additional flexibility. In addition, if you decide to utilize a 529 plan, talk to an advisor about which plan is right for you. Many states have their own plans, and you are not required to invest in the plan that correlates with the state in which you live.

Question 5: Should you diversify your portfolio or just invest in large capital U.S. stocks?

Answer: For the better part of this decade, the U.S. markets have been favorable for investors, and large capital stocks have performed well. However, investing in only one asset class can be a risky decision during times of market fluctuation. While diversifying your portfolio across asset classes may mean you give up a few upside benefits in certain years, you will likely experience less volatility and give your portfolio the opportunity to perform better over a longer time period.

Additionally, as you grow older, we recommend changes to your allocations. While it might be okay to invest in only equities when you're in your 20s, you should consider shifting some of your equity exposure to more consistent, fixed income products as you age.

Because there's no set investment model that works perfectly throughout your lifetime, it's important to regularly meet with your advisor to evaluate your portfolio and diversify your investments based on your age, objectives and risk tolerance.

Question 6: Should you hire a wealth advisor or handle your own finances?

Answer: Financial planning can be extremely complex. From building an investment portfolio, to minimizing downside risk, to developing a diverse set of investments, a wealth advisor works to help you identify and achieve your specific financial goals. While you may wish to handle certain aspects of your financials on your own, consider engaging a wealth advisor to serve as your advocate and help you plan for today and the future.

A wealth advisor can take an objective look at your entire financial situation and develop a plan of action to help you achieve your goals. Wealth advisors help identify unknown issues that could exist in your current financial situation and provide innovative strategies to help you solve financial challenges. Advisors also build customized portfolios, diversified across all accounts, that include investment opportunities to help you achieve your goals.

Question 7: Should you have estate documents drafted if you've already assigned your beneficiaries your major assets?

Answer: Estate planning can help you organize your personal and financial affairs in the event of mental incapacity or death. While you may have already assigned your major assets, estate planning documents can help maximize the value of your estate while minimizing taxes and other potential costs.

A few documents you should consider alongside your financial plan include a last will and testament, an advance medical directive, a living will, a financial power of attorney, and a revocable living trust and pour-over will. Mariner Wealth Advisors provides details on each of these documents here.[1]

Question 8: Should you do anything else once you have a financial plan (tax, estate, retirement, etc.)?

Answer: Absolutely! Life plans change all the time. Even the soundest tax/estate/retirement plans should be regularly evaluated to help ensure they remain appropriate for your changing life. What if your income increases or decreases drastically? What if you get married or divorced? What if you start your own business? A wealth advisor will monitor your plan on an ongoing basis to help ensure it continues to move you toward achieving your personal financial objectives.

Question 9: Should your professional services advisors be under one roof?

Answer: While your professional services advisors (e.g., wealth advisor, CPA, estate lawyer, etc.) can all function independently, there are efficiencies to be gained when they work together at the same firm. Working under one roof allows your advisors to more effectively communicate and develop a coordinated plan to help solve a wide range of financial challenges.

Question 10: Should you benchmark your investment performance to traditional benchmarks or create goal-based benchmarks for yourself and your family?

Answer: If you were asked how the market did today, what would you say? Many times, people discuss what happened with the Dow Jones industrial average or the S&P 500. Because of this, individuals often judge their wealth advisor against similar benchmarks. The problem with this is that personalized financial planning is based on your goals, rather than trying to beat a benchmark within the market.

Yes, portfolios are designed to perform well, but they are also designed with your tailored risk parameters, goals and cash flow needs. To judge a portfolio against an index doesn't make sense. A diversified portfolio has exposure to a variety of different asset classes. One of the best ways to judge your advisor's performance is to have a discussion with him or her about your financial goals and what would constitute a successful year for your portfolio, and then determine if your goals and portfolio expectations were met.

[1] http://www.marinerwealthadvisors.com/insights/essential-estate-planning-documents

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